

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the May 2, 2001
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: June 6, 2001

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session May 2, 2001 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
MAY 2, 2001
OPEN SESSION
BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
George Fenimore
Marty Mathiesen
Karen Russell
Jay Schenirer
Carolyn Widener
Annette Porini, representing State Director of Finance
Tim Gage
Kathleen Connell, State Controller
Curt Robinson, representing State Superintendent of Public Instruction
Delaine Eastin
Philip Angelides, State Treasurer

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Walter Barnes
Jennifer DuCray-Morrill
Chris Solich

STAFF PRESENT

James Mosman, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Chris Waddell, Chief Counsel
Elleen Okada, Director of Investment Administration and External Relations
Ed Derman, DCEO, External Affairs and Program Development
Doug Wills, Staff Counsel
Michelle Cunningham, Director of Fixed Income
Real Desrochers, Director of Alternative Investments
Mike DiRe, Director of Real Estate
Steven Tong, Director of Internal Equities
Richard Rose, Principal Investment Officer
Janice Hester Amey, Principal Investment Officer
Glenn Hosokawa, Investment Officer
Mike Thompson, Investment Officer
Jim Hurley, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Al Clerc, Pathway Capital Management
Doug Le Bon, Pathway Capital Management
Casey Young, CalPERS
Beverly Carlson, CTA
Edna White, CRTA
Pat Geyer, CRTA
Dorothy Moser, CTA, Retired
Don Douglas, CTA, Retired
Loretta Toggenburger, UTLA-Retired
George Wichman, CTA
Mike Green, CTA
Bill Collins, CTA
Robert Landis, UESF
Robert Eu, WR Hambrecht & Co

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:05 a.m.

I. ANNOUNCEMENTS (Item 2)

There were no announcements.

II. APPROVAL OF MINUTES OF THE APRIL 4, 2001 INVESTMENT COMMITTEE, OPEN SESSION (Item 3)

MOTION duly made by Mr. Robinson, seconded by Ms. Widener and carried to approve the minutes of the April 4, 2001, Investment Committee, Open Session as presented.

Ms. Porini arrived at 9:08 a.m.

III. REPORT OF THE SUBCOMMITTEE ON CORPORATE GOVERNANCE (Item 4)

There was nothing to report.

IV. LEGISLATION (Item 5)

Mr. Derman and Mr. Young reviewed SJR9 which requests the President and Congress of the United States to develop a federal list of investments in foreign countries and businesses that pose a threat to the national security interests of the United States. Mr. Young stated that CalPERS favors the list being developed reflects prohibited investments. Discussion ensued.

Mr. Angelides arrived at the meeting at 9:12 a.m.

Mr. Angelides stated for the record that he recommended that the list be informational. He distributed amended language of SJR9

MOTION duly made by Mr. Angelides, seconded by Mr. Robinson and carried to support SJR9 with proposed amendments to read "...desire to see these investments placed on a Federal list of investments which are prohibited,

or which pose threats to or are counter to the national security interest of the United States;" "...Federal measures be taken to deny these entities access to U. S. Capital..." Ms. Widener abstained.

V. **ALTERNATIVE INVESTMENTS – IMPLEMENTATION PLAN FOR NEW AND NEXT GENERATION MANAGERS** (Item 6)

Mr. Desrochers contrasted the current process of consideration of private equity investment opportunities with a conceptual plan for a dedicated strategy for capturing investment opportunities with new and next generation managers.

Mr. Schenirer arrived at 9:27 a.m.

Mr. Fenimore arrived at 9:40 a.m.

Dr. Connell arrived at 9:45 a.m.

Discussion ensued. Since CalSTRS has been able to capture opportunities with new and next generation managers, Staff and consultant recommended, and the Committee concurred, that no change be made to the existing consideration process at this time. The Committee directed Staff to include in next year's objectives the development of a long-range plan for ensuring continuing access to the market segment of new and next generation managers.

Chairperson Lynes recessed the meeting at 10:25 a.m.

The meeting reconvened at 10:35 a.m.

Mr. Angelides did not return to the meeting following the recess. Ms. DuCray-Morrill represented the State Treasurer.

VI. **REAL ESTATE – REPORT ON URBAN HOUSING INVESTMENT PLAN** (Item 7)

Mr. DiRe reviewed the research of the Controller's proposal for a concept for an affordable housing program. Discussion ensued.

MOTION duly made by Dr. Connell and seconded by Ms. DuCray-Morrill to earmark \$150 million of the current allocation for urban investments to affordable housing, to direct Staff to develop an RFQ to find developers as partners for the projects, and to direct Staff explore existing City, County, and State affordable housing programs. A roll call vote was taken.

Roll call vote on the MOTION

George Fenimore	YES
Marty Mathiesen	YES
Karen Russell	YES
Jay Schenirer	YES
Carolyn Widener	YES
Annette Porini for	
Tim Gage	YES
Kathleen Connell	YES
Curt Robinson for	
Delaine Eastin	YES
Jennifer DuCray-Morrill for	
Philip Angelides	YES

The motion CARRIED with 9 members voting YES.

Dr. Connell left the meeting at 11:05 a.m. Mr. Barnes represented the State Controller.

- VII. **FIDUCIARY RESPONSIBILITY OVERVIEW** (Item 8)
This item was rescheduled for the June 7, 2001 meeting.
- VIII. **GENERAL – INVESTMENT EDUCATION PROGRAM** (Item 9)
Mr. Ailman presented a historical review of CalSTRS investment program. Mr. Ailman also presented an overview of the function and staffing of each area within the Investment Branch.
- IX. **FIXED INCOME – UPDATE ON SECURITIES LENDING PROGRAM** (Item 10)
Ms. Cunningham and Mr. Hosokawa presented an annual review of the Securities Lending Program beginning with a description of securities lending, the lending process, risk mitigation, lending agents, and performance.
- X. **INTERNAL EQUITY – REPORT ON CASH EQUITIZATION** (Item 11)
Mr. Tong discussed the written annual review of the cash equitization program.
- XI. **EXTERNAL EQUITY – REPORT ON IMPLEMENTAION OF U.S. AND NON-U.S. ACTIVE MANAGERS** (Item 12)
Ms. Okada and Ms. Hester Amey presented a historical review of the asset allocation to U.S. and Non-U.S. active equity. They also discussed manager selection and current portfolio composition.
- XII. **GENERAL – SOFT DOLLAR OVERVIEW** (Item 13)
Mr. Emkin presented an educational overview of the sources and approved uses of soft dollars

Chairperson Lynes recessed the meeting at 12:45 p.m.
The meeting reconvened at 1:35 p.m.
Ms. Porini did not return when the meeting reconvened.
- XIII. **GENERAL – BUDGET REPORT UPDATE** (Item 14)
Ms. Okada reviewed a written update on three separate budgets. Ms. Okada included actual prior year expenditures as well as projected expenditures for the support budget, the continuous appropriations budget, and the soft dollar budget.
- XIV. **CREDIT ENHANCEMENT PROGRAM – ACTIVITY STATUS REPORT** (Item 15)
Mr. Rose presented the written monthly report.
- XV. **REAL ESTATE – ACTIVITY STATUS REPORT** (Item 16)
Mr. DiRe and Mr. Hurley reviewed the written monthly report and presented a correction to Attachment 2, Dispositions, should reflect a corrected IRR of 13%.
- XVI. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 17)
Mr. Desrochers presented the written report.

Mr. Schenirer left the meeting at 2:05 p.m.
- XVII. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 18)
Mr. Ailman presented the written report. Mr. Ailman explained the reconstitution of the Russell indices, which will occur in June.
- XVIII. **DRAFT AGENDA FOR MAY INVESTMENT COMMITTEE MEETING**
(Item 19)

Mr. Ailman discussed the draft agenda for the June Investment Committee meeting. Item 5 will be rescheduled to July, Item 6 will be rescheduled to September, and Item 20 will be postponed until a future meeting to be determined.

XIX. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 20)

There were no statements from the public.

XX. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 2:20 p.m. and reconvened into closed session.

XXI. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 2:38 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson